

Canadian Industries Limited



Annual Report
1936

CANADIAN INDUSTRIES LIMITED

C-I-L HOUSE

MONTREAL

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Vice-President & Treasurer - - - GEORGE W. HUGGETT

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TRANSFER AGENT, REGISTRAR AND
DIVIDEND DISBURSING AGENT

NATIONAL TRUST COMPANY, LIMITED, MONTREAL

ANNUAL REPORT

THE DIRECTORS have pleasure in submitting herewith the twenty-sixth Annual Report of Canadian Industries Limited, together with the Balance Sheet, the Income and Expenditure Account and the Surplus Accounts for the year ended 31st December, 1936.

Greater confidence and a natural revival characterized business conditions during the year 1936. The accelerated activity in almost all branches of industry and the resulting increased purchasing power have been reflected in the sales of your Company's products. In several instances new volume records have been achieved, enabling your Company to effect further reductions in selling prices, and, in spite of the higher rates of taxation and the increasing prices of raw materials, the earnings for 1936 show improvement over those of the previous year.

FINANCIAL REVIEW

THE INCOME for the year, after providing for income and capital taxes at the prevailing rates, and after making proper provision for depreciation and other contingencies, amounts to \$4,729,330, equivalent to earnings of \$6.45 per share of common stock as compared with \$5.85 per share for the year 1935. The income includes the revenue derived from your Company's investments.

The regular quarterly dividends were paid on the 7% cumulative preferred stock and dividends totalling \$6 per share were declared on the common stock—the same rate as for the previous year. After providing for these dividends and for a retroactive increase in the rates of taxation in respect of the year 1935, the balance of Earned Surplus at 31st December, 1936, amounted to \$3,352,060 as compared with \$3,149,420 brought forward from 1935, an increase during the year of \$202,640.

The Balance Sheet discloses a larger working capital with net current assets standing at \$15,391,000 as against \$14,477,000 at 31st December, 1935.

The investment in plant, buildings, equipment and land—totaling \$28,346,000—represents an increase during the year of \$1,114,000, due partly to the erection of the trichlorethylene plant at Shawinigan Falls, and partly to improvements and necessary extensions in the existing manufacturing facilities incidental to the Company's normal policy of maintaining its plants at a high point of efficiency. There has been no change in the Company's practice in providing for depreciation, and an amount of \$1,426,000 has been charged against operating costs during the year, representing an increase of some \$53,000 over the similar charge in 1935.

The influence that the cost of taxes generally may have on the selling prices of your Company's products is impossible to determine accurately, but the extent of its effect may be inferred from the amount of taxes levied in respect of the Company's operations. The total sum of the federal, provincial and municipal taxes definitely ascertainable and paid by the Company, excluding sales tax paid by the Company or its customers, amounted to \$1,734,000 in the year 1936, as compared with \$859,000 in the year 1930. It is significant that the 1936 tax figure is equivalent to 30% of the earnings of the Company and to 39% of the dividends paid in respect of the year 1936.

OPERATING REVIEW

THE DOLLAR value of sales during the year 1936 was 9% greater than in the previous year—all divisions, with the exception of minor decreases in "Fabrikoid," Plastics and Salt, showing a satisfactory improvement.

CELLULOSE PRODUCTS GROUP

The growth in "Cellophane" sales volume was again very encouraging and fully justified the installation of additional production equipment. New uses were stimulated to an important degree by the selling-price reductions introduced towards the end of the previous year. Still further reductions were made effective in November, 1936.

The "Fabrikoid" Division again had to contend with a lower automotive demand, mainly because of the continued change-over

to metal tops. The volume of sales for industrial purposes was satisfactory, though disturbed marketing conditions prevailed as a result of an unstable position in the corresponding industry in the United States. Equipment for producing a new product—buckram, principally for the shoe industry—was installed late in the year.

In 1935 the automotive demand for the products of the Paint and Varnish Division was abnormally high as a result of the effort made to attain a less seasonal operating condition in that industry. In the calendar year 1936, car production decreased slightly and the comparison of automotive-finish sales was therefore unfavourable. This factor was more than offset by increased sales effected in the industrial and retail trade fields.

During the year the Plastics Division maintained its position unexpectedly well. The changing of the Division's name from "Pyralin" to Plastics is an indication of the broadening of the Company's operations to include other forms of plastics than those having a nitro-cellulose base. Injection moulding equipment was installed towards the end of the year.

CHEMICAL GROUP

The largest division in this group, the General Chemicals Division, which handles acids, alkalis and other inorganic chemicals, experienced a successful year, to which the heavy demand for liquid chlorine, resulting from a continued increase in the consumption of bleached sulphite and kraft pulp, contributed to an important degree. Alkali plants were, as a result, operated on a capacity basis.

The Organic Chemicals Division, involving in the main a resale operation in mining chemicals and dyestuffs, enjoyed a successful year. An appreciable increase in the sale of recently developed specialty chemicals has been experienced. The consumption of one of these, trichlorethylene, used in degreasing and dry-cleaning work, has been developed to a point that justified its manufacture, and a plant for this purpose was opened at Shawinigan Falls in November.

The Salt Division again had to face an extremely unsatisfactory selling-price situation, involving uneconomic operation. Important improvements in producing facilities were effected in order to ensure your Company being in an unassailable position as regards quality

and cost of production. The programme will be further developed in 1937. Selling efforts are also being intensified, and distinct progress was made in 1936 in developing the use of salt for highway stabilization and ice-control purposes.

EXPLOSIVES AND AMMUNITION GROUP

The Explosives Division enjoyed a higher volume of business in dynamite used for mining and other industrial purposes. As a consequence, and in spite of a sharp increase in some raw material costs, a further selling-price reduction was made possible. An excellent record as regards safety in operation was achieved at all five of the explosives plants.

While game conditions were relatively unfavourable, efforts to increase the use of sporting ammunition for target-shooting met with success and the "Dominion" Ammunition Division enjoyed a fairly satisfactory year. The policy of the Company in dealing with military ammunition business, explained in the last two annual reports, remained unchanged and sales were negligible.

FERTILIZER GROUP

During 1936 a further increase in sales resulted in this group obtaining an operating profit for the first time since your Company entered the business in 1930. A further satisfactory increase took place in the sales of insecticides, seed disinfectants and mineral supplements.

ORGANIZATION

THE OPERATIONS of the Company continue to be administered in four groups, each with its general manager, and under their direction are the ten operating divisions, each also with its manager. Serving these groups and managed by specialists are nine centralized departments—Accounting, Advertising, Engineering, Mechanical Efficiency, Patent, Purchasing, Research and Development, Secretarial and Traffic.

The magazine *C-I-L Oval* is now published in English and French editions and maintains its popularity with the public as an informative and educational medium for developing interest in the Company's products.

The employees' newspaper, *C-I-L Contact*, now also published in French, is an increasingly valuable factor in unifying a widespread personnel.

EMPLOYEE RELATIONS

THE NUMBER of employees on the rolls of your Company at the end of the year was almost 3,500, an increase of 17% over 1935. To this number may be added 900 employees in companies for the management of which your Company is responsible.

The nine Employee Welfare Plans enumerated in the Annual Report for 1935 were all continued in operation and during the year a revised Stock Investment Plan was introduced.

The Employee Representation Plan brings representatives of payroll employees and management together periodically for open discussion of questions of mutual interest. This direct access to employee opinion has aided management in its responsibility for maintaining the satisfactory relationship existing between your Company and its employees, and has also served to emphasize the common interest of employees and stockholders in achieving a really efficient and profitable operation. Two new Works Councils were formed during the year, increasing the number now in existence to thirteen.

The Vacation Plan in 1936 gave to eligible payroll employees one week's vacation with pay. It has already been announced that for the coming year the vacation period has been extended to two weeks for all payroll employees who were in the Company's service prior to 1st May, 1936.

The Co-operative Sickness and Non-occupational Accident Insurance Plan, to which your Company contributes a higher proportion of the premiums for the lower-paid employees, provides cash benefits ranging from \$5 to \$25 weekly according to earnings. Under this Plan in 1936 employees received benefits totalling almost \$20,000.

The 1935 Co-operative Savings Plan terminated in June, 1936, and to every dollar saved by the 1,885 participants who completed twelve monthly deposits, there was added interest at the rate of 4% per annum and a contribution by the Company of 25 cents. The final

sum held by the Trustee and belonging to participants was \$239,000, and part of this sum was used by participants to purchase shares under the Investment Plan outlined below. The Savings Plan was followed immediately by a similar plan which will terminate in June, 1937, and to which the Company will contribute at the same rate as before. The annual earnings limit for participation has been lowered from \$3,600 to \$3,000, and in consequence of the reduced interest paid by banks on deposits the rate of interest has been decreased from 4% to 3% per annum. An eligible employee may deposit up to 10% of his earnings, but not more than \$20 per month.

The 1936 Stock Investment Plan was introduced in June, offering the Company's preferred stock to employees whose earnings were not in excess of \$3,600. This Plan, as previously mentioned, enabled participants under the Savings Plan who so desired, to convert their cash balances into the Company's preferred stock under liberal and attractive conditions, whereas under previous Investment Plans most shares were purchased by gradual payments. The offer was taken up by 973 employees, who subscribed for 2,235 shares, and for each share retained those who remain in the Company's employ will receive an extra payment of \$5 per annum for three years.

Under the Pension Plan, 14 employees were added to the number of pensioners, which now totals 62. The terms of the Plan remained unchanged, except for an amendment to recognize for about 300 employees their prior service with acquired companies. The entire expense of this Plan is borne by your Company.

The Employees' Benefit Plan, which provides a death benefit varying from \$1,000 to \$1,500 depending upon the extent to which service exceeds six months, settled payments on the beneficiaries of 13 employees and 4 pensioners who died in 1936. All benefits are provided at the Company's expense from a reserve accumulated for this purpose.

The Bonus Plan, which has been in force for eighteen years and which operates only when the level of profits stated below is attained, provides supplementary compensation for those of its employees who have contributed in an unusual degree to the success of the Company. When the earnings from operations, exclusive of income from investments, exceed 6% on the manufacturing investment, an

amount of not more than 15% of such excess is applied to the purchase of class "B" non-voting common shares. For the year 1936, shares purchased from the Company have been awarded and will be distributed in equal instalments over a period of four years to 148 employees. The Plan, by introducing the element of stock-ownership, enables the Company to recognize the achievements of individuals and to encourage their further efforts while retaining flexibility in the remuneration of management.

Under the No-Accident Record Plan a new low figure for the frequency of major occupational accidents was established, although the severity rate increased over the previous low record which was achieved in 1935. The Board repeats its acknowledgment of the watchful care and regard for regulations by employees which made possible such mutually beneficial results.

The Service Pin and Watch Plan provides distinctive gold pins for every five years of service up to and including twenty-five years, at which time a gold watch is also awarded. During the year, 282 pins and 20 watches were presented, and there are now 99 employees having twenty-five or more years of service, either entirely with your Company or in part with an acquired company.

INVESTMENTS

THE TOTAL income from investments after providing for taxes at the prevailing rates was approximately 26% greater than in the previous year, almost entirely due to the increased dividends received on the common stock of General Motors Corporation, which totalled \$4.50 per share as against \$2.25 in 1935.

Investment income includes the profits earned by subsidiary companies in the year 1936 only to the extent of your Company's share of the dividends declared: the accounts of such subsidiary companies have not been consolidated with those of Canadian Industries Limited. Only minor changes have taken place in your Company's investments in subsidiary and other industrial companies, but the holdings of marketable securities—mainly Dominion Government bond issues—are approximately \$1,000,000 higher than at 31st December, 1935.

The profits of Canadian Hanson and Van Winkle Company Limited, while slightly lower than last year, were fully up to expectations.

The volume of sales of Canadian Safety Fuse Company Limited continues to improve, and, in spite of lower selling prices, the earnings of the company were substantially the same as in 1935.

No dividends have been received from Dunlop Tire and Rubber Goods Company Limited. Notwithstanding increased raw material prices and the continuation of unsettled tire-marketing conditions, the company reduced its operating loss and thus recorded another year of progress.

PERSONNEL

THE SATISFACTORY results attained during the year would not have been possible without the active co-operation, loyalty and enthusiasm shown by the employees, and the Board again wishes to record its recognition of the very important part they have played in furthering the progress of the Company.

The Board regrets that for personal reasons Mr. Winthrop Brainerd has decided to retire from the office of vice-president after forty years of service with this and affiliated companies. He continues, however, to be associated with the Company as a director.

On behalf of the Board of Directors,

ARTHUR B. PURVIS,
President and Managing Director.

MONTREAL, CANADA, 9th March, 1937.

CANADIAN INDUSTRIES LIMITED

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER, 1936

Income from Operations after charging \$1,426,374 for depreciation.....		\$ 5,386,558
Income from Investments.....	\$ 974,214	
Loss on sale of Marketable Securities.....	38,221	935,993
		<u>6,322,551</u>
Less:		
Directors' Fees.....	\$ 10,000	
Remuneration of 26 Executives, including bonus awards.....	542,089	
Legal Expenses.....	981	
Reserve for Income Taxes.....	1,040,151	1,593,221
		<u>1,593,221</u>
NET INCOME FOR THE YEAR 1936 TRANSFERRED TO EARNED SURPLUS ACCOUNT.....		<u>\$ 4,729,330</u>

EARNED AND CAPITAL SURPLUS ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER, 1936

	EARNED SURPLUS	CAPITAL SURPLUS
SURPLUS AT 1ST JANUARY, 1936.....	\$ 3,149,420	\$14,874,698
Retroactive increase in the Federal Income Tax rate for 1935 and other prior year adjustments.....	103,190	
Net Income for the year 1936 as per Income and Expenditure Account.....	4,729,330	
Profit on sale of Capital Assets.....		37,579
	<u>\$ 7,775,560</u>	
Dividends for the year 1936:		
Preferred 7% Cumulative Stock.....	\$ 325,500	
Common Stock (\$6 per share).....	4,098,000	
	<u>\$ 4,423,500</u>	
SURPLUS AT 31ST DECEMBER, 1936.....	<u>\$ 3,352,060</u>	<u>\$14,912,277</u>

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BALANCE SHEET AT

ASSETS

CURRENT ASSETS:

Cash	\$ 2,232,799	
Marketable Securities (market value \$8,460,278).	8,271,420	
Government	\$ 7,900,553	
Others	<u>370,867</u>	
Accounts Receivable, less reserve for doubtful accounts	3,063,733	
Customers' Accounts	\$ 2,674,721	
Accrued Revenue from Investments and Other Accounts	<u>389,012</u>	
Inventories, valued at cost or market price whichever was lower	<u>5,676,429</u>	\$19,244,381
DEFERRED CHARGES TO OPERATIONS		97,333
PREFERRED SHARES, IN TRUST FOR EMPLOYEES' STOCK INVESTMENT PLANS		1,232,782

FIXED ASSETS:

Plants, Buildings and Equipment, at replacement values estimated to obtain during the 10-year period 1926 to 1936 based on the appraisal of the National Appraisal Company (1927 to 1929), with subsequent additions at cost	\$26,902,242	
Land, at cost	1,443,885	
Goodwill, Patents and Processes	<u>3,438,151</u>	31,784,278
Shares in Subsidiary Companies	\$ 531,283	
Shares in Other Companies (including marketable shares, book value \$2,500,000, market value \$7,937,500)	<u>3,588,973</u>	4,120,256
		<u>\$56,479,030</u>

Approved on behalf of the Board,
 ARTHUR B. PURVIS }
 C. C. BALLANTYNE } *Directors.*

STRIES LIMITED

31st DECEMBER, 1936

LIABILITIES

CURRENT LIABILITIES:

Accounts Payable.....	\$ 1,350,495	
Dominion and Provincial Taxes.....	1,055,259	
Dividends Declared.....	<u>1,447,375</u>	\$ 3,853,129

DEFERRED LIABILITIES.....		136,803
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RESERVES:

Depreciation of Securities.....	\$ 1,200,000	
Depreciation of Plants, Buildings and Equipment.....	12,803,410	
Works Accident, Pension and Benefit Plans	<u>2,209,494</u>	16,212,904

CAPITAL STOCK:

Authorized:	Shares
Preferred 7% Cumulative Stock (Par Value \$100).....	75,000
Common Stock (No Par Value)	
Class "A" Voting.....	660,000
Class "B" Non-voting.....	690,000

Issued and Fully Paid:

Preferred 7% Cumulative Stock.....	46,500	\$ 4,650,000
Common Stock:		
Class "A".....	615,974	
Class "B".....	<u>67,026</u>	683,000
		13,361,857

(Issued during the year to employees under
the Company's Bonus Plan, 3,339 Class
"B" shares—\$350,595)

CAPITAL SURPLUS.....	<u>14,912,277</u>	32,924,134
EARNED SURPLUS.....		<u>3,352,060</u>
		<u>\$56,479,030</u>

Audited and certified in accordance with our attached certificate.

P. S. ROSS & SONS, *Chartered Accountants.*

Montreal, 27th February, 1937.

AUDITORS' CERTIFICATE

Montreal, 27th February, 1937.

Canadian Industries Limited,
Montreal.

We have audited the books of account and financial records of Canadian Industries Limited for the year ended 31st December, 1936, and have obtained all the information and explanations we have required.

The inventories shown on the attached Balance Sheet have been determined and certified by the management of the Company.

In accordance with Section 114 of the Dominion Companies Act, we report that the profits earned by Subsidiary Companies for the year 1936 have been included in the attached account only to the extent of the dividends declared and received or receivable by this Company. The balances of these profits have been carried forward in the books of the Subsidiary Companies and are, in the aggregate, in excess of the losses sustained by two Subsidiary Companies, which losses have also been carried forward in the books of those Companies and have been provided for in the attached accounts.

We certify that, in our opinion, the attached Balance Sheet and relative Income and Expenditure Account and Surplus Accounts are properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at 31st December, 1936, and the result from operations for the year ended that date, according to the best of our information and the explanations given to us and as shown by the books of the Company.

P. S. ROSS & SONS,
Chartered Accountants.

CANADIAN INDUSTRIES LIMITED

CELLULOSE PRODUCTS GROUP

"Cellophane" Division

Plain transparent, moistureproof transparent and other special grades of "Cellophane" cellulose film.

"Fabrikoid" Division

"Fabrikoid" and rubber-coated fabrics; "P.X." book cloth and other binding materials; "Tontine" window-shade cloth, buckram, etc.

Paint and Varnish Division

Lacquers, varnishes and enamels; oil colours; industrial paints; "Duco" for industrial and household uses (sole Canadian manufacturers); "Cilux" and "Dulux," etc.

Plastics Division

Combs; tooth-brushes; toiletware; cleanable collars; sheeting; moulding powders and X-Ray film

CHEMICAL GROUP

General Chemicals Division

Acids; chlorine; caustic soda; hydrogen peroxide; synthetic and by-product ammonia and other heavy chemicals

Organic Chemicals Division

Dyestuffs; intermediates; rubber and mining chemicals; "Gardinol"; trichlorethylene and perchlorethylene and other organic chemicals

Salt Division

All grades of salt for household, agricultural and industrial purposes

EXPLOSIVES AND AMMUNITION GROUP

"Dominion" Ammunition Division

"Duco" waterproof shot-shells and all other classes of sporting ammunition embodying "Super-clean" non-mercuric priming. Railway fusees and signals, etc.

Explosives Division

Commercial explosives and blasting accessories

FERTILIZER GROUP

Eastern and Western Divisions

Superphosphate; complete fertilizers; "Gardenite" (plant food); insecticides; "Cel-o-Glass"; soluble minerals (stock feed), etc.

